Raw deal

Weather events and the world economy are putting pressure on tanners in The Americas. Hide prices are high, material is scarce, in spite of drought conditions in some regions pushing cattle towards the abattoirs early.

Drought causes havoc

La Niña weather conditions last year and earlier this year were the strongest recorded since the 1970s, and caused dry conditions in farmland in Argentina and Brazil and southern states in the US. The weather phenomenon is caused by a drop in water temperature in the tropical Pacific.

Local packer companies in the Argentinean province of Río Negro, northern Patagonia, said that droughts in the country led to a steep fall in slaughter numbers. The J.J. Gómez co-operative in General Roca told local media in May that slaughter numbers fell in the nine months up to May from around 1,600 head a month to just 600. The company said the situation was affecting every packer firm in Argentina. However, a J.J. Gómez spokesperson, Felipe Gerbán, said that record hide prices were helping to keep the operation going. In May, his company was receiving around 200 pesos (just under $50) for each cattle hide, whereas a year previously, the prices were closer to 30 pesos (just over $7).

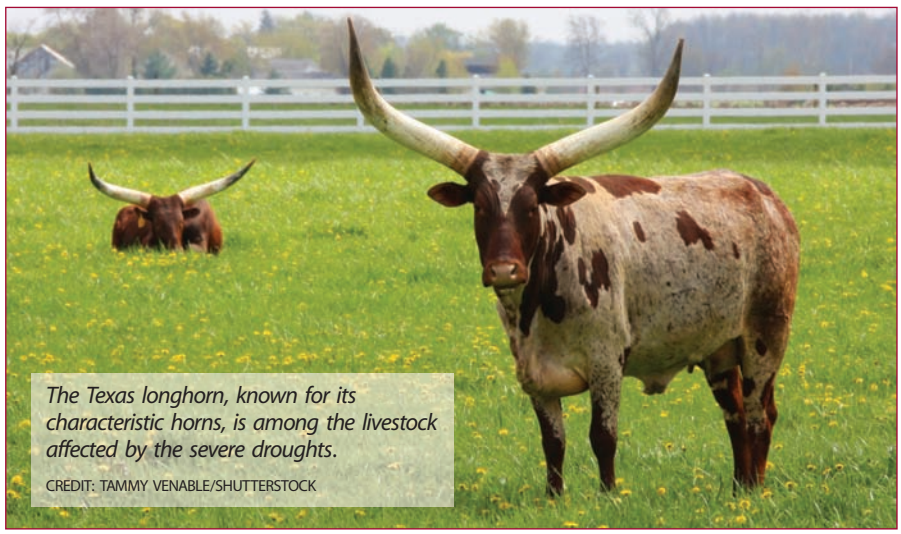
Cattle herds in southern states of the US have also been shrinking due to the droughts. According to the average estimate of nine analysts surveyed by Bloomberg News, US ranchers held 99.39 million head of cattle as of July 1, 2011, down by 1.4% from a year earlier. That would be the smallest July herd since at least 1973, when the US Department of Agriculture data begins. The drought in Texas is "the most severe one-year drought on record", according to state climatologist, Dr John Nielsen-Gammon. The state's agriculture commissioner, Todd Staples, said of the situation: "Dr Nielsen-Gammon's work confirms the harsh realities. The extreme heat and unprecedented dry weather are crippling agricultural operations in Texas. This historic drought has depleted water resources, leaving our state's farmers and ranchers in a state of dire need."

More than 62% of the land area in a six-state region in the US is experiencing "extreme" drought, according to the US Drought Monitor. Pasture and range conditions were rated "poor" or "very poor" in 86% of Texas in the week ended July 2. As of August 11, the US Department of Agriculture (USDA) designated 213 counties in Texas as primary natural disaster areas. The short-term effect of the droughts on the leather industry is expected to be higher slaughter numbers, meaning more hides will become available. The long-term consequences, however, could be detrimental to the industry, as shrinking herds will eventually lead to fewer hides than in previous years, and higher prices.

Agriculture commissioner for Texas, Todd Staples, says the droughts are "crippling agricultural operations in Texas".

CREDIT: TEXAS DEPARTMENT OF AGRICULTURE

In addition to the problems caused by the La Niña weather conditions last year and earlier this year, the US National Weather Service in August declared a "La Niña watch", predicting that a second wave of La Niña conditions is likely during the coming northern hemisphere winter. The government forecaster noted a "historical tendency for significant wintertime La Niña episodes to be followed by relatively weaker La Niña episodes the following winter". But with many commodity markets still recovering from recent supply disruptions, even a moderate La Niña could have a significant impact on market balances and therefore prices. The prospect of a dry winter means that wheat crops in the southern plains may struggle. If cereal feed prices increase sharply, then US livestock prices may be driven up from already-high levels.



The Texas longhorn, known for its characteristic horns, is among the livestock affected by the severe droughts.

CREDIT: TAMMY VENABLE/SHUTTERSTOCK

Perfect storm in Latin America

Representatives of tanning groups in Latin America have said the industry in their part of the world is facing "a perfect storm".

Director of PMP in Mexico, Carlo Magno Oropeza, told news agency AFP in the spring that the industry was facing a severe increase in the price of raw materials, which he said was the result of a downturn in profits in the meat industry in the last ten years, and a corresponding decline in production and, as a direct result, of hides becoming scarcer.

It was Gerry Lievendag, president of Argentinean group Surpiel, who used the "perfect storm" phrase in comments he gave to AFP at the same time. He went on to say: "The kill is down everywhere. In Argentina, we've gone from a kill of 14 million head of cattle a year to barely 10 million." He drew parallels with Brazil, which he said had gone from 46 million head of cattle in 2007 to a likely total this year of 38 million.

Another Argentinean business leader, Gabriel Barmaimón of the Arlei tanning company, agreed and said the numbers in Australia and the US are also down. And as a result, hide prices rose from around $28 at the end of March 2009 to $87 two years later.

Meanwhile, demand for finished leather has been increasing, especially in the world's fastest developing economies. "This leaves us between a rock and a hard place," said Carlos Salazar, finance director of Colombian company Americana de Curtidos, "because passing on increases in price quickly enough to our customers is very difficult."

Argentina: Struggles as packers pack up

Falling slaughter numbers have led to closure of a fifth of Argentina's packer companies, an industry analyst has said. Speaking to media in neighbouring Uruguay, beef industry expert Ignacio Iriarte said that, equally, 20% of the sector's workforce in his country had been laid off. He went on to say that demand for meat is strong across the world, but that Argentina is unlikely to be in a position to help meet a shortfall in supply.

He pointed out that consumers in Argentina and across the Mercosur economic community had a long tradition of eating meat in large quantities and that, as long as incomes in the region keep rising, there will be little extra meat for export markets from producing countries there.

Paraguay: To play bigger meat role

Paraguay needs to work harder to promote the quality of its beef, the external relations director of the National Animal Quality and Health Service (Senasca), Hugo Idoyaga, has said.

Mr Idoyaga was speaking at a national trade event called Expo Paraguay 2011. He said Paraguayan beef exporters were finding customers in more and more countries, but that the beef industry there needed to do more to promote itself. He said there was a great demand and need for beef and other food products today and he suggested Paraguay can play a bigger part in the international market than it has done until now.

Brazil: Beefs up for the future

The United Nations Food and Agriculture Organization (FAO) has said low animal inventories and high prices are likely to characterise the global beef sector in 2011, as in 2010, although it reports a boost for the Brazilian beef business in 2011.

Globally it expects beef production to stagnate at 65 million tonnes in 2011, just 0.2% higher than the figure for last year. A 1% decline in production in developed countries, which account for 45% of global output, is expected by the Rome-based organisation. The contraction reflects the situation in Canada and the United States, which began the year with smaller cow herds, low replacement heifer numbers and even tighter feed supplies.

But rebounding from a nearly 2% decline in 2010, beef output in Latin America and the Caribbean is on the upturn, with output growth in Brazil "more than compensating for" the persistent downfall of Argentina's beef sector, which has reportedly lost 3,500 jobs over the past few years, the FAO said. The only uncertainty relating to a strong outlook for the Brazilian sector concerns the possibility of a removal of Brazilian meat plants from the list of firms eligible to export to the Russian Federation.

More specific to leather, Brazil exported leather and hides with a value of $888.9 million in the first five months of this year, and the cumulative volume 12.5 million pieces. These figures represent increases of 25% and 7% respectively on the first five months of 2010.

However, Wolfgang Goerlich, president of the Brazilian Tanners Association (CICB), said the positive result masked the difficulties leather producers in the South American country were facing to stay competitive.

"Our domestic market is saturated," Mr Goerlich said, "and cannot absorb any more material. Tanners are, therefore, being forced to focus on overseas markets and are suffering because of the well documented negative effects of the high value of our currency compared to the US dollar. Tanners are being forced to work with margins that are very narrow and, in some cases, negative."

Passing on increased raw material costs has been impossible for tanners, the CICB president continued. Having to pay more Brazilian reals for hides while bringing in fewer US dollars for the leather they produce is severely hurting export-focused tanneries, he said, especially as many tanneries are finding it very difficult to secure extensions to their credit facilities.

Having to pay more reals for hides while bringing in fewer US dollars for the leather they produce is severely hurting export-focused tanneries in Brazil. CREDIT: WTP

In spite of this, the Brazilian leather industry has been able to maintain a presence in overseas markets that it has worked hard to conquer over many years, and in some cases opened up new ones, Mr Goerlich added. China, Hong Kong and the US continue to be the main export markets for Brazilian leather, but shipments to Germany, South Korea, Mexico, Norway and Hungary have increased substantially in the last year.

Across the whole economy, Brazil registered a trade surplus of $13 billion during the first six months of 2011, with record exports across all sectors of $118.3 billion and record imports of $105.3 billion.

The value of beef exports over the six-month period was 9.1% higher than for the same period in 2010. Volume was down, at 406,000 tonnes, compared to nearly 487,000 tonnes in the first half of last year, but the value of the beef Brazil exported between January and June 2011 was more than $2 billion compared to $1.8 billion last year.

Beef aside, an alligator farm in north-east Brazil has opened its own slaughterhouse, with full permission of the country's ministry of agriculture. The company behind the venture, Mister Cayman, earned fame by supplying alligator leather for a special-edition Ferrari car in 2003, to celebrate the famous automotive brand's seventy-fifth anniversary.

Mister Cayman has been operating for 17 years. It claims to be the largest alligator farm in South America, set up with the permission of the authorities to help preserve the Yacare caiman. Its owner, Cristina Ruffo, has said the kill will, initially, be limited to 200 alligators per month. The meat is in demand in restaurants in and around the state of Alagoas, where the business is based.

Ms Ruffo believes leather from the skins will continue to be in demand too.

Uruguay: Encouragement for tanners

Figures for the month of May suggest not everything about the Uruguayan tanning industry is negative. The sector has been beset by industrial unrest and job losses, caused by a reduction in cattle slaughter and the global economic downturn.

However, the national statistics institute (INE) has said that the tanning industry was an important contributor to an increase of 9.1% in total manufacturing output in May 2011 compared to the same month last year, and to a rise of 2.1% in Uruguay's industrial productivity. Over the first five months of the year, the country's manufacturing output was 6% higher than for the same period in 2010.